

Message Text

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PAGE 01 ADDIS 01441 01 OF 03 110919Z

ACTION AF-08

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E.O. 11652: N/A

TAGS: EGEN, EALR, ET

SUBJ: ETHIOPIA'S CURRENT ECONOMIC SITUATION

REF: A. 76 ADDIS ABABA 8852, B. 76 ADDIS ABABA 1899
C. ADDIS ABABA 1044, D. 76 ADDIS ABABA 12023, E. ADDIS
ABABA A-16, F. ADDIS ABABA A-10, G. ADDIS ABABA 0044

1. SUMMARY: AGRICULTURAL PRODUCTION WAS SOMEWHAT ABOVE
AVERAGE FOR THE PAST CROP SEASON. MARKETING AND DIS-
TRIBUTION HAS SIGNIFICANTLY IMPROVED THEREBY
INCREASING FOOD SUPPLIES, ESPECIALLY CEREALS, IN URBAN
AREAS. MANUFACTURING OUTPUT (EXCLUDING ERITREA) IS
HOLDING AT THE LEVELS OF THE PAST YEAR, SLIGHTLY BELOW
PRE-REVOLUTION LEVELS. PRIVATE CONSTRUCTION HAS PICKED
UP SOMEWHAT ALTHOUGH IT IS STILL BELOW PRE-REVOLUTION
LEVELS. RETAIL TRADE CONTINUES TO HOLD UP WELL AND
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PAGE 02 ADDIS 01441 01 OF 03 110919Z

INFLATIONARY PRESSURES HAVE EASED SIGNIFICANTLY,
PRIMARILY DUE TO INCREASED FOOD AVAILABILITIES IN
URBAN AREAS AND INCREASES IN CONSUMER GOODS IMPORTS.
THE BANKING SECTOR CONTINUES TO FUNCTION WELL ALTHOUGH
EXCESS LIQUIDITY IS BECOMING A SERIOUS PROBLEM. THE
EPMG IS FINALLY MOVING FORWARD WITH SOME INDUSTRIAL
INVESTMENT PROJECTS BUT THE PRIVATE SECTOR IS STILL

NOT INVESTING. THE EXTERNAL SECTOR CONTINUES STRONG WITH FOREIGN RESERVES OF NEARLY 700 MILLION BIRR, PRIMARILY DUE TO RECORD COFFEE EXPORT EARNINGS. COMMENT: ASSUMING A REASONABLE DEGREE OF POLITICAL STABILITY AND PRAGMATISM, WHICH IS LESS CERTAIN FOLLOWING MENGISTU'S TAKEOVER, PROSPECTS FOR THE ECONOMY APPEAR BETTER THAN IN SOME TIME. SEVERAL GOVERNMENT AND PARA-STATAL OFFICIALS HAVE STATED THEY EXPECT NO SIGNIFICANT CHANGES IN ECONOMIC POLICY DESPITE RECENT POLITICAL DEVELOPMENTS. NEVERTHELESS, IT WILL BE SEVERAL WEEKS BEFORE WE HAVE A CLEAR INDICATION OF THE ECONOMIC IMPACT (IF ANY) OF THE RECENT POLITICAL CHANGES. END SUMMARY.

2. AGRICULTURE:

A. PRODUCTION OF CEREALS DURING THE 1976/1977 SEASON, WHILE NOT AS GOOD AS THE PREVIOUS YEAR, APPEARS TO HAVE BEEN SOMEWHAT ABOVE AVERAGE. WHEAT PRODUCTION, HOWEVER, WAS DOWN 5 TO 10 PERCENT COMPARED TO THE PREVIOUS YEAR, WHICH ITSELF WAS WELL BELOW AVERAGE. OIL SEEDS, EXCEPT SESAME, AND PULSES PRODUCTION WERE GOOD TO EXCELLENT. BASED ON RECENT INFO FROM THE GRAIN BOARD, IT APPEARS THAT THE DISTRIBUTION AND MARKETING SYSTEMS ARE OPERATING MUCH BETTER THIS YEAR THAN LAST WITH CEREALS ARRIVALS IN ADDIS ALMOST DOUBLE WHAT THEY WERE LAST YEAR AT THIS TIME (SEE REF C.). THUS FAR, IN SPITE OF IMPROVED SUPPLIES, THE GOVT HAS NOT TAKEN LIMITED OFFICIAL USE

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PAGE 03 ADDIS 01441 01 OF 03 110919Z

STEPS TO ENFORCE PRICE CONTROLS CURRENTLY ON THE BOOKS. AS LONG AS THEY DO NOT, THE OUTLOOK FOR FOOD SUPPLIES IN ADDIS ABABA OVER THE NEXT FEW MONTHS IS VERY GOOD. PRODUCTION OF OTHER CROPS HAS ALSO BEEN GOOD TO EXCELLENT THIS YEAR. COFFEE AVAILABLE FOR EXPORT (SEE SEPTTEL) SHOULD BE ON THE ORDER OF 80 - 85,000 TONS OR 10,000 TO 15,000 ABOVE LAST YEAR. COTTON PRODUCTION, WHICH WAS BETTER THAN LAST YEAR BY ROUGHLY 5 - 10 PERCENT, MAY NOT RESULT IN A COMPARABLE INCREASE IN HARVESTED COTTON OWING TO UNSEASONAL RAINS IN THE AWASH VALLEY, WHICH WHICH IS DAMAGING COTTON STANDING IN THE FIELD AS WELL AS COTTON STORED IN THE OPEN. NEVERTHELESS, THERE WILL BE MORE THAN ENOUGH COTTON TO MEET THE REQUIREMENTS OF THE DOMESTIC MILLS AND IT SEEMS LIKELY THAT ROUGHLY 10,000 TONS WILL BE AVAILABLE FOR EXPORT. SUGAR PRODUCTION IS EXPECTED TO BE 135,000 TONS, OR UP 10,000 TONS FROM LAST YEAR. IN A CHANGE OF POLICY, THE GOVT HAS DECIDED NOT TO EXPORT SUGAR THIS

YEAR AS INTERNAL DEMAND IS GROWING RAPIDLY. RATHER THAN LET THE PRICES RISE TO WORLD LEVELS (ESPECIALLY THOSE PREVAILING IN SOMALIA AND SUDAN), THE GOVT HAS DECIDED TO PROVIDE ADDITIONAL SUPPLIES TO THE DOMESTIC MARKET. GIVEN THE PRICE DIFFERENTIALS WHICH EXIST IN NEIGHBORING NATIONS, HOWEVER, THE LIKELY UPSHOT WILL BE INCREASED SMUGGLING.

3. MANUFACTURING, CONSTRUCTION AND EMPLOYMENT (EXCLUDING ERITREA):

A. APART FROM ERITREA WHERE INDUSTRY HAS BEEN SEVERELY HAMPERED BY THE INSURGENCY AND RESULTANT SHORTAGES OF POWER, RAW MATERIALS AND TRANSPORTATION TO MARKETS, MANUFACTURING ACTIVITY IN ETHIOPIA REMAINS RELATIVELY STABLE. INDUSTRIAL PRODUCTION IS MODERATELY BELOW PRE-REVOLUTION LEVELS ALTHOUGH THE LIMITED OFFICIAL USE

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PAGE 04 ADDIS 01441 01 OF 03 110919Z

PERFORMANCE OF DIFFERENT SECTORS AND INDIVIDUAL FIRMS WITHIN THE SECTORS VARIES WIDELY. RECENTLY PUBLISHED EPMG STATISTICS SHOW THAT THE INDEX OF MANUFACTURING PRODUCTION DURING ETHIOPIA FISCAL YEAR 1968 (JULY '75 - JUNE '76) WAS 2.3 PERCENT BELOW THAT OF THE PREVIOUS YEAR AND 6 PERCENT BELOW THE PEAK LEVEL OF EFY '65 (1973-74). INDICES FOR MANUFACTURING SALES ACTUALLY SHOW EFY '68 SALES AS 3 PERCENT ABOVE THE EFY '65 LEVEL, BUT THIS IS DUE TO PRICE INCREASES WHICH MASK A DROP IN PRODUCTION. PERFORMANCE VARIES BY SECTOR WITH TEXTILE, LEATHER AND BEVERAGE SECTORS GENERALLY PERFORMING WELL WHILE FOOD, WOOD, METAL AND MINERAL INDUSTRIES SHOW DROPS IN PRODUCTION FROM PRE-REVOLUTION (AND PRE-NATIONALIZATION) LEVELS, PARTLY BECAUSE OF DECREASES IN DEMAND ESPECIALLY FOR THOSE PRODUCTS RELATED TO THE CONSTRUCTION INDUSTRY. ELECTRICITY PRODUCTION IN THE COUNTRY, GENERALLY A REASONABLE INDICATOR OF INDUSTRIAL ACTIVITY, DURING EFY '68 WAS THE SAME AS THE PREVIOUS YEAR AND 3 PERCENT ABOVE EFY '65.

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PAGE 01 ADDIS 01441 02 OF 03 110958Z

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LIMITED OFFICIAL USE SECTION 2 OF 3 ADDIS ABABA 1441

B. CONSTRUCTION ACTIVITY HAS PICKED UP IN THE
LAST HALF OF 1976 AND EARLY 1977. IN ADDITION TO
CONTINUED GOVT CONSTRUCTION WORK (REF A),
THERE HAS BEEN THE BEGINNING OF PRIVATE RESIDENTIAL
CONSTRUCTION AFTER NEARLY A TWO-YEAR HIATUS.
CERTAIN BUILDING MATERIALS WHICH WERE IN SURPLUS
SIX MONTHS AGO, SUCH AS CEMENT, ARE NOW IN SHORT
SUPPLY, EVIDENCE OF THE INCREASED CONSTRUCTION
ACTIVITY. ON OTHER HAND, PUBLIC WORKS EMPLOYMENT
APPEARS TO HAVE DECLINED. OVERALL CONSTRUCTION AND
PUBLIC WORKS EMPLOYMENT IS ESTIMATED TO BE APPROXI-
MATELY 15,000 MEN IN ADDIS ABABA, SLIGHTLY ABOVE THE
LEVELS OF ONE YEAR AGO AND ROUGHLY 50 PERCENT OF
PRE-REVOLUTIONARY EMPLOYMENT.

C. LABOR: EPMG HAS ACHIEVED LITTLE PROGRESS
IN REDUCING UNEMPLOYMENT. WHILE NO MEANINGFUL LABOR
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PAGE 02 ADDIS 01441 02 OF 03 110958Z

STATISTICS ARE AVAILABLE, MOST OBSERVERS BELIEVE
THAT THE UNEMPLOYMENT PICTURE REMAINS ABOUT AS IT
WAS SIX MONTHS AGO, WHICH IS WORSE THAN THREE YEARS
AGO. DUE TO THE LACK OF INVESTMENT BY EITHER THE
PUBLIC OR PRIVATE SECTORS OVER THE PAST THREE YEARS,
NEW JOB CREATION HAS BEEN MINIMAL WHILE THE LABOR
FORCE HAS CONTINUED TO EXPAND. THERE HAVE BEEN SIG-
NIFICANT WAGE INCREASES FOR MOST OF THE LOWEST PAID
WORKERS IN THE PUBLIC AND PRIVATE SECTORS. FOR
EXAMPLE, A NEW AGREEMENT WAS RECENTLY SIGNED IN

THE COFFEE INDUSTRY WHEREBY THE MINIMUM WAGE WAS DOUBLED, TO A RATE OF APPROXIMATELY 2 BIRR (US \$1) PER DAY, FOR THE NEARLY 30,000 UNSKILLED WORKERS IN THAT INDUSTRY. WAGES FOR MOST MIDDLE AND UPPER INCOME WORKERS IN THE PRIVATE SECTOR HAVE BEEN MODESTLY INCREASED OVER THE PAST YEAR BUT PROFESSIONAL WORKERS IN THE PUBLIC SECTOR HAVE NOT RECEIVED INCREASES. AS WAS REPORTED IN REF A, MANAGERS OF BOTH PUBLIC AND PRIVATE ORGANIZATIONS HAVE TO SPEND AN INORDINATE AMOUNT OF TIME ON LABOR GRIEVANCES, MOST OF WHICH ARE OF A PETTY NATURE. LABOR DISCIPLINE REMAINS A MAJOR IMPEDIMENT TO EFFICIENCY IN MANY ORGANIZATIONS AND THUS FAR THE EPMG HAS NOT DEVELOPED A CONSISTENT POLICY TOWARD THIS PROBLEM. LABOR IS PROBABLY CONFUSED ABOUT ITS ROLE IN THE NEW ETHIOPIA AS THE EPMG PUBLICLY PROCLAIMS LABOR'S LEADERSHIP FUNCTION IN THE REVOLUTION BUT AT THE SAME TIME ALMOST ALWAYS SIDES WITH MANAGEMENT WHEN LABOR-MANAGEMENT DISPUTES ARISE.

4. RETAIL TRADE AND PRICE TRENDS:

A. RETAIL TRADE: RETAIL TRADE HAS CONTINUED TO HOLD UP WELL OVER THE PAST SIX MONTHS IN BOTH DOMESTICALLY-PRODUCED AND IMPORTED GOODS. WHILE EXPATRIATE AND ETHIOPIAN BUSINESSMEN, BOTH LARGE LIMITED OFFICIAL USE

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PAGE 03 ADDIS 01441 02 OF 03 110958Z

AND SMALL, ARE INCREASINGLY APPREHENSIVE OVER THE RECENT POLITICAL EVENTS (ESPECIALLY THE FEBRUARY 3 SHOOTINGS), MOST REPORT THAT THEIR BUSINESS CONTINUES TO RANGE FROM GOOD TO BETTER THAN EVER. THE PREVIOUS PATTERN OF STRONG DEMAND FOR CONSUMER GOODS, BOTH DURABLE AND NON-DURABLE, AND SLACK DEMAND FOR CAPITAL GOODS HAS CONTINUED. A FEW PERIODIC SHORTAGES EXIST FOR LOCALLY-PRODUCED CONSUMER GOODS SUCH AS SUGAR, MATCHES AND SALT. IN GENERAL, HOWEVER, THE DISTRIBUTION AND MARKETING SYSTEM REMAINS IN PRIVATE HANDS AND IS WORKING WELL.

B. PRICE TRENDS: THE LATEST EPMG STATISTICS SHOW THAT THE RATE OF INFLATION SLOWED DOWN DURING THE SECOND HALF OF 1976. THE RETAIL PRICE INDEX (ETHIOPIA CONSUMPTION PATTERN), ROSE FROM 221 IN JULY OF LAST YEAR TO 238 IN JANUARY 1977 (1963 EQUALS 100), AN 8 PERCENT INCREASE OVER THE SIX MONTH PERIOD. THE PRIMARY REASON BEHIND THE SLOWDOWN IN THE OVERALL RATE OF INFLATION IS THE DROP IN THE RATE OF PRICE RISES FOR FOOD ITEMS, ESPECIALLY CEREALS WHICH PLAY A CRITICAL ROLE IN THE "MARKET BASKET." STATISTICS

SHOW THAT THE AVERAGE 1976 ANNUAL PRICE INDEX WAS 29 PERCENT ABOVE THAT OF 1975, COMPARED TO ONLY A 6.5 PERCENT INCREASE FROM 1974 TO 1975. HOWEVER, AS WAS NOTED ABOVE, THE INCREASES WERE HEAVIEST IN THE EARLY PART OF 1976 AND THE MOST SERIOUS INFLATIONARY PRESSURES SEEM TO HAVE EASED ALTHOUGH NORMAL SEASONAL FACTORS PROBABLY ACCOUNT FOR A PORTION OF THE IMPROVEMENT.

5. TRANSPORTATION:

AS WAS REPORTED IN REFS E AND F, THE TRANSPORTATION SYSTEM IS FUNCTIONING WELL WITH THE EXCEPTION OF ERITREA WHERE IT HAS BEEN ALMOST SHUT DOWN DUE TO LIMITED OFFICIAL USE

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PAGE 04 ADDIS 01441 02 OF 03 110958Z

INSURGENCY PROBLEMS. THE TRUCKING SYSTEM WHICH PROVIDES THE BACKBONE OF THE COUNTRY'S TRANSPORTATION NETWORK IS OPERATING MORE EFFICIENTLY FOLLOWING THE EPMG'S SET-UP OF A CENTRAL ROAD TRANSPORT ADMINISTRATION (REF D). THE PORTS OF ASSAB AND DJIBOUTI ARE FUNCTIONING AT THEIR NORMAL LEVELS WITH ASSAB PROBABLY BEING USED MORE FOR DRY CARGO DUE TO A DECLINE IN THE EFFICIENCY OF ADDIS-DJIBOUTI RAILROAD. PETROLEUM PRODUCTS ARE GENERALLY AVAILABLE IN ADEQUATE SUPPLY IN ADDIS AND THROUGHOUT THE COUNTRY. IT HAS BEEN OVER A YEAR SINCE THE LAST SERIOUS ATTACK ON THE ASSAB-ADDIS CONVOYS ALTHOUGH THE ROAD REMAINS POTENTIALLY VULNERABLE TO INSURGENT ATTACK AND THE CONVOY SYSTEM REMAINS IN EFFECT.

6. THE BANKING SECTOR IS BASICALLY HEALTHY ALTHOUGH THE TWO GOVT-OWNED COMMERCIAL BANKS ARE IN AN OVERLY LIQUID POSITION WITH DEPOSITS FAR OUTDISTANCING DEMAND FOR LOANS. THIS SITUATION RESULTS FROM THE SUCCESSFULLY COMPLETED CURRENCY EXCHANGE WHICH LED MANY INDIVIDUALS TO INCREASE THEIR DEPOSITS IN BANKS, THE DROPOFF IN DEMAND FOR CREDIT BY THE PRIVATE SECTOR, GENERAL INCREASE IN THE MONEY SUPPLY OWING TO HIGH COFFEE PRICES AND DEFICIT FINANCE BY THE GOVT AND THE DELAYS IN THE PUBLIC SECTOR AND COOPERATIVES (PEASANT ASSOCIATIONS) IN DEVELOPING PROJECTS REQUIRING BANK FINANCING. THE BANKS' DEPOSIT/LOAN RATION HAS FALLEN INTO AN IMBALANCE WHICH COULD HAVE SEVERE IMPLICATIONS FOR THE PROFITABILITY OF THE BANKS. APART FROM THIS PROBLEM, THE BANKING SYSTEM IS CONTINUING TO FUNCTION WELL IN THE NEW ECONOMIC ENVIRONMENT. THE HOUSING AND SAVINGS BANK HAS BECOME MORE ACTIVE IN THE PAST SIX MONTHS AND IS FINANCING INCREASING AMOUNTS OF

PRIVATE HOME CONSTRUCTION.

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PAGE 01 ADDIS 01441 03 OF 03 111103Z
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LIMITED OFFICIAL USE SECTION 3 OF 3 ADDIS ABABA 1441

B. MONETARY DEVELOPMENTS: THE MONEY SUPPLY
SHOWED A DROP DURING THE LAST HALF OF 1976, PRIMARILY AS A RESULT OF THE CURRENCY EXCHANGE. BANKING
SOURCES REPORT THAT THIS TEMPORARY ABERRATION IS
GRADUALLY WORKING ITSELF OUT OF THE SYSTEM AND WITH HIGH
EXPORT EARNINGS AND THE EPMG'S DEFICIT FINANCE
PROGRAM, THE LONG RUN TREND OF MONETARY EXPANSION
WILL REESTABLISH ITSELF. WHILE NO OFFICIAL FIGURES
ARE YET AVAILABLE, ONE BANKING SOURCE INDICATED
THAT APPROXIMATELY 100 MILLION BIRR OF OLD CURRENCY
WAS NOT EXCHANGED FOR NEW BIRR NOTES, THEREBY
REDUCING THE MONEY SUPPLY AND PRESUMABLY HELPING TO
EASE INFLATIONARY PRESSURES. SOURCES ALSO REPORT
THAT THE EPMG'S DEFICIT FINANCE IS PROCEEDING
APPROXIMATELY AS FORESEEN IN THE BUDGET (REF G).

C. INVESTMENT: NEW PRIVATE INVESTMENT IS STILL
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PAGE 02 ADDIS 01441 03 OF 03 111103Z

ALMOST NON-EXISTENT AND IS NOT EXPECTED TO DEVELOP IN THE NEAR FUTURE GIVEN THE POLITICAL SITUATION. IN THE PUBLIC SECTOR, HOWEVER, THERE ARE INDICATIONS THAT SOME NEW INVESTMENT PROJECTS MAY FINALLY BE STARTED. AFTER NEARLY THREE YEARS OF NO SIGNIFICANT INVESTMENT, THE EPMG IS MOVING AHEAD WITH PLANS FOR EXPANDED PRODUCTIVE CAPACITY FOR TEXTILES AND SUGAR, AND IS REPORTEDLY CONSIDERING OTHER PROJECTS AS WELL. THE EPMG WILL APPARENTLY FINANCE THESE INDUSTRIAL PROJECTS OUT OF DOMESTIC RESOURCES AND WILL SELECT NECESSARY FOREIGN CONSULTANTS AND EQUIPMENT ON A COMPETITIVE BID BASIS. THE EPMG HAS ADEQUATE FOREIGN EXCHANGE RESERVES TO SUPPORT A SIGNIFICANT INDUSTRIAL INVESTMENT PROGRAM. WHILE THERE IS A POTENTIAL CONFLICT OF OBJECTIVES AND SHORTAGES OF FUNDS BETWEEN NEW PUBLIC SECTOR INVESTMENTS AND COMPENSATION TO FORMER OWNERS OF NATIONALIZED COMPANIES, GIVEN THE STRONG FINANCIAL (ESPECIALLY FOREIGN RESERVE) SITUATION OF THE EPMG, THERE APPEARS TO BE SUFFICIENT RESOURCES FOR BOTH PROGRAMS.

7. EXTERNAL SECTOR:

ETHIOPIA CONTINUES TO ENJOY A VERY HIGH FOREIGN EXCHANGE RESERVE POSITION. THE LAST OFFICIAL FIGURE PUBLISHED FOR NET FOREIGN EXCHANGE HOLDINGS WAS 696 MILLION BIRR (US \$340 MILLION) AS OF SEPTEMBER. IT IS POSSIBLE THAT THIS FIGURE MAY HAVE DROPPED SLIGHTLY DURING RECENT MONTHS BUT IT IS EXPECTED TO CLIMB TO RECORD LEVELS DURING THE COMING MONTHS AS COFFEE EXPORTS REACH THEIR PEAK SEASON. COFFEE REMAINS THE MOST IMPORTANT REASON BEHIND THE STRONG RESERVE POSITION AS ETHIOPIA EARNED NEARLY 300 MILLION BIRR FROM COFFEE EXPORTS FROM OCT '75 TO SEPT '76. IT APPEARS THAT THE COUNTRY MAY EARN DOUBLE THAT AMOUNT DURING THE CURRENT COFFEE LIMITED OFFICIAL USE

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PAGE 03 ADDIS 01441 03 OF 03 111103Z

YEAR GIVEN THE HIGH WORLD MARKET PRICE AND THE GOOD CROP. OTHER EXPORT COMMODITIES HAVE ALSO ENJOYED HIGHER PRICES INCLUDING HIDES AND SKINS, PULSES AND OILSEEDS ALTHOUGH DECREASED QUANTITIES AVAILABLE FOR EXPORT OF THE LATTER ITEM, ESPECIALLY SESAME, HAS HELD DOWN EARNINGS. EXPORT OF LIVE CATTLE AND SUGAR HAVE FALLEN FROM PREVIOUS LEVELS. ETHIOPIA'S "TERMS OF TRADE" INDEX CALCULATED ON THE WHOLESALE PRICE INDEX OF EXPORT COMMODITIES (DIVIDED BY THAT OF IMPORT COMMODITIES) WAS 1.56 IN SEPT 1976 COMPARED WITH 1.18 IN SEPT 1975, A 32 PERCENT IM-

PROVEMENT.

8. COMMENT: UNTIL THE EVENTS OF FEBRUARY 3 CAST UNCERTAINTY OVER THE LOCAL SCENE, A SERIES OF FAVORABLE TRENDS HELD PROMISE FOR FURTHER IMPROVEMENT IN THE ECONOMY. PUBLIC SECTOR INDUSTRIAL INVESTMENT APPEARS TO AT LAST BE GETTING OFF THE GROUND. THE CONSTRUCTION SECTOR IS RECOVERING MODESTLY. THE MARKETING AND DISTRIBUTION SYSTEM FOR AGRICULTURAL PRODUCE HAS IMPROVED, THEREBY INCREASING THE SUPPLY OF FOOD TO URBAN AREAS. MANY IMPORTANT NATIONALIZED INDUSTRIES ARE BEING WELL RUN AND ARE PRODUCING AT NEAR-CAPACITY LEVELS. THE TRANSPORTATION SYSTEM HAS BECOME MORE EFFICIENT. WHOLESALE, RETAIL AND IMPORT/EXPORT TRADE, WHICH REMAIN PRIMARILY IN PRIVATE HANDS, ARE FUNCTIONING WELL. THE RATE OF INFLATION HAS BEEN CUT IN THE PAST SIX MONTHS AND, WITH FOOD GRAIN SUPPLIES TO URBAN AREAS PROMISING, THE INFLATIONARY RATE MAY BE HELD TO PERHAPS 15 - 20 PERCENT IN 1977. DESPITE THESE FAVORABLE DEVELOPMENTS, SOME SIGNIFICANT PROBLEMS STILL REMAIN. THERE IS A SERIOUS LACK OF CONFIDENCE IN THE PRIVATE SECTOR. THE EPMG STILL DOES NOT HAVE A CLEAR-CUT POLICY ON FOREIGN INVESTMENT. CREDIT AND INTEREST LIMITED OFFICIAL USE

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PAGE 04 ADDIS 01441 03 OF 03 111103Z

RATE POLICIES REQUIRE CLARIFICATION. LABOR DISCIPLINE REMAINS A DEBILITATING PROBLEM AS DOES UNEMPLOYMENT. THE EPMG HAS NOT FOCUSED ON THE NECESSITY TO INCREASE REVENUES RATHER THAN RELYING ON INCREASED DEFICIT FINANCING TO COVER THE GROWTH IN EXPENDITURES. NEVERTHELESS, LOOKING SOLELY AT ECONOMIC FACTORS, THE SITUATION APPEARS FAVORABLE FOR INCREASED ECONOMIC GROWTH. GIVEN THE FEBRUARY 3 EVENTS, HOWEVER, THIS ASSESSMENT IS OPEN TO QUESTION. IF THIS POTENTIAL ECONOMIC IMPROVEMENT IS TO OCCUR, THE POLITICAL SITUATION MUST REMAIN REASONABLY STABLE AND THE PMAC MUST BE PRAGMATIC IN ITS ECONOMIC POLICIES. SHOULD A PERIOD OF EITHER INCREASED POLITICAL TURMOIL OR DOGMATIC APPLICATION OF THE CURRENT POLITICAL IDEOLOGY ARISE, THE ECONOMY WILL ALMOST CERTAINLY DETERIORATE SERIOUSLY. THERE HAVE BEEN SOME DISQUIETING DEVELOPMENTS IN PAST WEEKS, THE MOST SERIOUS OF WHICH IS THE ARMING OF WORKERS. THIS IS EXPECTED TO WEAKEN MANAGEMENT PREROGATIVES AND LEAD TO FURTHER LABOR DISCIPLINE PROBLEMS. ON THE OTHER HAND, GOVT AND PARASTATAL OFFICIALS SO FAR ARE UNANIMOUS IN THEIR BELIEF THAT DESPITE RECENT POLITICAL DEVELOPMENTS, THE ECONOMY WOULD BE LEFT ALONE TO FUNCTION WITHOUT

SERIOUS INTERFERENCE. IF THEY ARE CORRECT, THE
ETHIOPIAN ECONOMY MAY WELL EXPERIENCE A PERIOD OF
ACCELERATED GROWTH AND DEVELOPMENT.
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